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SUBJECT: CLIMATE CHANGE DEMARCHE: ENGAGING HONG KONG AND
MACAU ON ENERGY AND THE ENVIRONMENT

REF: A. STATE 75287

- [1](#)B. STATE 80334
- [1](#)C. HK PD RESULTS REPORT MAY 11 2007

[1](#)1. (SBU) Summary: AmConGen Hong Kong has actively engaged the governments and the general public of the Hong Kong and Macau Special Administrative Regions on U.S. climate change, renewable energy and other environmental programs. Post developed and actively promoted the Pollution Prevention and Energy Efficiency Initiative (P2E2), a financing model that allows Hong Kong and mainland Chinese companies to reduce their energy usage and improve polluting factories without incurring any upfront costs. There are currently about 30 projects in various stages of development using these P2E2 technologies in China. We are facilitating additional financing for the installation by Hong Kong companies of P2E2 technology upgrades at factories, power plants and real estate projects throughout the mainland. Following up on Council on Environmental Quality (CEQ) Chairman James Connaughton's visit last year, the Consul General showcased American technological innovation and the need for market-based solutions to combat environmental problems during a recent speech. The Hong Kong government (HKG) and press responds favorably to this message. HKG officials have begun to showcase U.S. approaches towards reducing air pollution as an appropriate solution to environmental degradation problems in the Pearl River Delta (PRD) region of southern China. Consulate staff also met Macau energy and environmental officials to explain U.S. initiatives and the need for sustainable economic growth. The Macau Special Administrative Region government (MSARG) responded by requesting additional information and collaboration with the U.S. Department of Energy the Environmental Protection Agency on developing long-term energy and environmental strategies in the PRD. Consulate staff have actively engaged civil society groups and schools on the U.S. approach to environmental protection and sustainable development with another outreach event planned for late June. END SUMMARY.

[1](#)2. (U) Since 2005, AmConGen Hong Kong has developed and promoted the P2E2 program, a market-based financing model that encourages investment in pollution-reducing technologies at mainland Chinese factories and power plants. The program enables firms in mainland China -- some 80,000 of which are owned by Hong Kong investors -- to upgrade their facilities with the help of Hong Kong Environment and Energy Service Companies and Hong Kong banks. The project has begun to yield results in addressing air, water and ground pollution. Through fostering increased energy efficiency, the program

also helps participating companies gain a competitive edge over their rivals. The idea that pollution prevention and increased energy efficiency are profitable is an important message to convey to investors in the cut-throat business environment of southern China. To date, there are approximately 30 P2E2 technology projects under development in China and, through the Asian Development Bank and IFC, AmConGen Hong Kong is facilitating the commitment in 2007 of up to US\$800 million in new loan guarantees and loans to Hong Kong commercial banks for this initiative. This program not only allows us to publicize the U.S. approach to climate change, but also provides Hong Kong and mainland Chinese companies with a reliable market-based platform to reduce emissions through technological innovation.

13. (U) On May 11, the Consul General spoke publicly to the Chinese General Chamber of Commerce in Hong Kong about U.S. efforts to increase energy security through recent fuel initiatives and investments in clean energy research and technology, including highlighting recent mandates for the use of ultra-low sulfur diesel, expanding the market for hybrid vehicles, and developing biofuels and new renewable energy sources. Extensively drawn from material provided by CEQ, the speech highlighted the importance of the market and the role that businesses can play in spurring innovation and in promoting energy efficiency. This message has been well-received by HKG officials. Hong Kong Secretary for the Environment, Transportation and Works Sarah Liao has quoted the Consul General by name when discussing American market-based approaches to clean energy and pollution prevention during her recent public speeches on climate change and the environment.

14. (SBU) Twelve local and international media representatives attended the event and the Consul General's lengthy question

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and answer session on U.S. efforts to improve the environment and diversify our energy sources. Radio Television Hong Kong and five Hong Kong newspapers, including Oriental Daily, Ming Pao, The Sun, South China Morning Post and (the pro-Beijing) Ta Kung Pao (with a combined circulation of 816,000) covered the speech with positive reports. Over 60 members of the local community attended, representing the Chinese General Chamber of Commerce, environmental organizations, industry representatives, and the HKG. USINFO also ran an article based on the speech, which is available on the websites of AmConGen Hong Kong and the Chinese General Chamber of Commerce in Hong Kong.

15. (SBU) Hong Kong is working to diversify its energy sources. China Light and Power (CLP) recently increased its use of coal in its power plants due to a dwindling supply of natural gas in Hainan, a large island off the coast of Southern China. It is now working with the HKG to build an LNG terminal on a remote island in Hong Kong to secure a stable supply of natural gas and decrease its dependency on coal. Although some local environmental groups oppose the project due to its potential impact on sea life, HKG officials generally support the construction of the new terminal as it would expand the territory's energy sources, make it less dependent on Hainan and other PRC sources for its LNG, and contribute to improved air quality. To date, Hong Kong has not invested much money in renewable energy.

16. (SBU) EconOff recently visited Macau to discuss energy and environmental issues with Arnaldo Santos, Director of the MSARG Office for the Development of the Energy Sector and Vong Man Hung, Acting President of the Executive Committee of the MSARG's Environment Council. Due to tremendous economic growth of the gaming sector and the accompanying development of hotel, transportation and convention industries, Macau is struggling to meet its energy needs. Macau largely relies on diesel for electricity production and is working with mainland Chinese counterparts to build new power plants and LNG terminals, and to develop renewable energy sources in the

PRD. Unlike Hong Kong, Macau is tying its energy security very closely to mainland China. But, officials expressed a keen interest in learning more what Macau can do to promote clean energy in mainland China as the territory's air quality is adversely impacted by Chinese pollution. Santos was particularly interested in sharing technologies and best practices with U.S. counterparts for harnessing wind, solar and other forms of renewable energy in a compact urban area. Both Santos and Vong requested increased collaboration with the Department of Energy and Environmental Protection Agency. They also invited USG energy and environment specialists to Macau when they next visit mainland China or Hong Kong.

17. (U) Post has conducted active public diplomacy programs to support the President's energy and climate change initiatives -- from op-ed pieces in the local press to public events on the importance of sustainable development and economic growth at schools and with other civic groups. Post plans an additional outreach event in late June on sustainable development with a focus on the importance of balancing preservation and economic growth.
Cunningham